

NO PROTEST

Release

Date 10/21/87

Surname [REDACTED]

SEP 22 1987

Employer Identification Number: [REDACTED]
District Office: [REDACTED]

Dear Applicant:

This is in reply to your application for recognition of exemption under section 501(c)(3) of the Internal Revenue Code.

The information you have submitted indicates that you were established to provide quality patient care by arranging for the delivery of health care services. You describe yourself as a "preferred provider organization" (PPO). A PPO is defined as an arrangement through which insurers and/or employers contract with hospitals and physicians on a negotiated fee for service basis. You are responsible for marketing the plan and negotiating contracts with medical practitioners, hospitals and health plan user groups. You also provide administrative, financial and accounting services.

A participating physician or hospital agrees to comply with your fee schedule, utilize your review system, maintain certain limits of insurance coverage and look to you for the payment for services rendered. Physicians are required to pay a one time initiation fee and annual dues. Patients receive coverage to the extent contracted for; with you ensuring that the physicians are paid. Patients are billed directly by the participating physician for uncovered services.

Your operations are directed by a [REDACTED] member board of directors. This board is comprised of [REDACTED] physicians members and [REDACTED] hospital representatives. Each group votes as a bloc on the matters before them.

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(a) of the Income Tax Regulations provides that in order to be exempt as an organization described in section 501(c)(3), the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. An organization that fails to meet either the organizational or the operational test is not exempt.

BEST AVAILABLE
COPY

Section 1.501(c)(3)-1(c) of the regulations provides that an organization will be regarded as operated exclusively for one or more exempt purpose only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3). An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized and operated exclusively for charitable purposes unless it serves a public rather than a private interest.

Section 1.501(c)(3)-1(d)(2) of the regulations provides that the term charitable is used in its generally accepted legal sense and includes the promotion of health.

Although your activities involves the provision of health care it appears that your primary purpose and activity is to assist your members, participating health care providers, to provide medical services to your subscribers. You provide your members with new clients, and administrative, financial and accounting services. These services include relieving your members from the responsibility of billing patients and collecting for services rendered them. These are activities which would otherwise have to be carried on by or for your participating physicians. In summation you are assisting your members in carrying on their individual medical practices or hospital operations.

Therefore, you are not operating for charitable purposes, rather you are operating for the private benefit of your members. Accordingly, you do not qualify for recognition of exemption under section 501(c)(3).

You are required to file federal income tax returns on Form 1120. Contributions to you are not deductible under section 170 of the Code.

You have the right to protest our ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the

BEST AVAILABLE
COPY

-3-

District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to the District Director. Thereafter, any questions about your federal tax status should be addressed to that office. Also, the appropriate State officials will be notified of this action in accordance with section 6104(c) of the Code.

Sincerely yours,

(signed) [REDACTED]

[REDACTED]
Chief, Exempt Organizations
Rulings Branch

cc: [REDACTED]

cc: [REDACTED]

cc: [REDACTED]

cc: [REDACTED]

[REDACTED]

BEST AVAILABLE
COPY

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname	[REDACTED]	[REDACTED]					
Date	9/18/87	9-22-87					